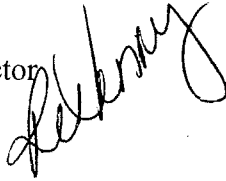


## Memorandum

**To** : Mr. Ramon J. Hirsig  
Executive Director

**Date:** February 29, 2008

**From** : Randie L. Henry, Deputy Director  
Sales and Use Tax Department



**Subject : Security Deposits Update March 19, 2008 Board Meeting**

At the March 19, 2008 Board Meeting, David Gau and I will be providing a Security Deposit update.

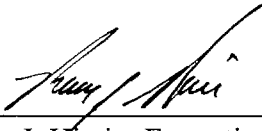
Please place these items on the March 19, 2008 Board Meeting agenda under the Executive Director Update and add the attached memos to the Public Agenda Notice.

RLH:lc

Attachments: Security Deposit Update Memo and Action Plan

cc: Ms. Diane Olson (MIC 80)

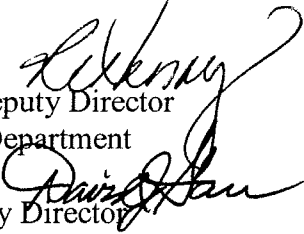
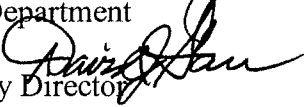
Approved: \_\_\_\_\_

  
Ramon J. Hirsig, Executive Director

# Memorandum

**To** : Honorable Judy Chu, Ph.D., Chair  
Honorable Betty T. Yee, Vice Chairwoman  
Honorable Bill Leonard  
Honorable Michelle Steel  
Honorable John Chiang

**Date:** February 29, 2008

**From** : Randie L. Henry, Deputy Director  
Sales and Use Tax Department  
  
David J. Gau, Deputy Director  
Property and Special Taxes Department  


**Subject : Security Deposits Update**

This memo will provide an update to our January 15, 2008 memo and also addresses Honorable Michelle Steele's recommendations proposed during the February 1, 2008 Board meeting.

As reported in the February 1, 2008 Board meeting, the Sales and Use Tax Department (SUTD) has released all security deposits three years and older that were eligible for release. The Property and Special Taxes Department (PSTD) has also completed the release of all outstanding security reported on February 1.

The pilot program to review security monthly for the Third District is underway. The Active Three Years and Older Report and the Uncleared Security Deposits List were electronically provided on January 14, 2008 and February 1, 2008 to the offices in the Third District. They have completed reviewing the January report and are in the process of completing the review for the February report. The March reports are scheduled to be distributed on March 3, 2008. The pilot program will be evaluated as part of our planned review of the Security Deposit Release Process as outlined in our January 15, 2008 memo. As indicated in our plan, we anticipate completion of this part of our review by April 30, 2008 with a formal proposal to the Board at the June Board meeting.

A recommendation was made by Honorable Michelle Steel to immediately release all security deposits for less than \$2,000 as the Board's policy has changed. In addition, it was requested that we send taxpayers a letter when their account is over three years old, but not eligible for release (including the reason it was not released).

SUTD offices were provided a list of accounts that have security deposits of less than \$2,000 to release these securities or apply them to any outstanding liabilities. SUTD will complete the release of eligible security deposits under \$2,000 by March 7, 2008.

PSTD does not have the same \$2,000 minimum security policy as SUTD. For PSTD, the Cigarette and Tobacco Products program has a minimum security deposit of \$1,000 mandated by law and it cannot be released until the account is closed out. Security for the Alcoholic Beverage Tax program is set at \$500 by statute and not by policy. A minimum security of \$500 is set by policy for all other PSTD accounts that have security provisions. The PSTD had only one eligible account below the minimum and it has been released.

Sending letters to the taxpayers informing them as to why their security deposits were not released is of primary importance; therefore, we are currently developing a standard letter to use in these situations. We anticipate having this new letter completed and available for use by the end of March.

A Security Deposits Work Group consisting of SUTD and PSTD staff has been assembled to review the existing policy and procedures and to propose improvements to the security deposits program. This group has already met several times and is making good progress. The goal of our workgroup is twofold. First, we want to evaluate our current criteria for security release to ensure that it is appropriate based on the risk to the State. Second, we plan to streamline and automate the security release process so that it is not only more timely and efficient, but will result in better uniformity throughout the agency. As indicated in our January 15, 2008 memo (copy of workplan attached), we plan to have this review completed by July 15, 2008 with a proposal to the Board at the August Board meeting.

If you have any questions, please feel free to contact us.

RLH:DJG:jt

Attachment – Agencywide Security Deposit Action Plan

cc: Mr. Steve Shea  
Mr. Alan Lo Faso  
Ms. Barbara Alby  
Mr. Erik Caldwell  
Mr. Mark Ibele  
Ms. Marcy Jo Mandel  
Mr. Ramon J. Hirsig

**Agencywide Security Deposits Action Plan**  
**January 15, 2008**

<b><u>Release of Security</u></b>	<b><u>Start Date</u></b>	<b><u>Proposed Completion Date</u></b>
1. Conduct review of current policy and procedures for release of security	12/5/07	4/30/08
2. Propose policy and procedures changes to Board Members based on monthly review pilot program	5/1/08	6/25/08
3. Implement revised policy and procedures	6/26/08	8/1/08
<b><u>Security Requirements</u></b>		
1. Conduct review of policy and procedures for current requirements	6/2/08	7/15/08
2. Propose policy and procedures changes to requirements to Board Members	7/16/08	8/21/08
3. Implement requirements policy and procedures changes	8/22/08	10/1/08
<b><u>Security Maintenance</u></b>		
1. Conduct review of current maintenance policy and procedures	7/1/08	8/15/08
2. Propose policy and procedures changes to Board Members	8/18/08	10/3/08
3. Implement maintenance policy and procedures changes	10/6/08	11/3/08